



ANALYSIS OF INDICATORS USED IN CALCULATING DIVIDENDS IN COMMERCIAL BANKS

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The dividend policy of commercial banks is one of the issues that is receiving wide attention internationally. Therefore, the effective organization of the profit distribution mechanism and the identification of problems arising in the dividend policy, the development of mechanisms for the effective distribution of profits and the calculation of dividends are among the main tasks for commercial banks.

The classification of expenses provided in the Regulation “On the composition of costs of production and sale of products (works, services) and the procedure for the formation of financial results”, approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 54 dated February 5, 1999, is aimed, first of all, at the correct and complete reflection of expenses, as well as at determining the financial results of the activities of an economic entity (profit or loss) in order to draw up its financial statements. The provisions of this Regulation will help us understand the mechanisms of profit formation. Since profit formation in commercial banks is one of the aspects that directly affects dividend policy, we believe it is appropriate to consider this calculation mechanism.

According to the section “Formation of Financial Results” of the Regulation “On the Structure of Costs for the Production and Sale of Products (Works, Services) and the Procedure for Forming Financial Results”, approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 54 dated February 5, 1999, “the financial results of the activities of an economic entity are characterized by the following profit indicators”¹:

1. Gross profit from the sale of a product is determined as the difference between the net proceeds from this sale and the cost of production of the product sold:

$$\text{Gross profit} = \text{NPS} - \text{CP} \quad (1)$$

Where:

Gross profit;

NPS - net proceeds from sales;

CP - cost of production of the product sold.

¹ The Regulation "On the structure of costs for the production and sale of products (works, services) and the procedure for forming financial results", approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 54 dated February 5, 1999; <https://lex.uz/docs/264422>

2. Profit from the main activity is determined as the difference between the gross profit from the sale of this product and the period costs plus other income from the main activity or minus other losses:

$$PMA = GROS - PE + OI - OL \quad (2)$$

Where:

PMA - profit from the main activity;

PE - period expenses;

OI - other income from the main activity;

OL - other losses from the main activity.

3. Profit (or loss) from economic activity, which is calculated as the sum of profit from the main activity plus income from financial activity and minus losses:

$$GP = PMA + FI - FE \quad (3)$$

Where:

GP - profit from general economic activity;

FI - income from financial activity;

FE - expenses from financial activity.

4. Profit before tax is determined as profit from general economic activity plus profit from extraordinary (unforeseen) situations and minus loss:

$$PBT = GP + EP - EL \quad (4)$$

Where:

PBT - profit before tax;

EP - profit from extraordinary situations;

EL - loss from extraordinary situations.

5. Net profit for the year, which remains at the disposal of the business entity after payment of taxes, is the profit received before payment of taxes, minus the tax payable on profit and minus other taxes and fees provided for by law:

$$NP = PBT - PT - OT \quad (5)$$

Where:

NP - net profit;

PT - tax payable on profit;

OT - other taxes and fees.

In commercial banks, the issue of profit distribution and dividend policy is one of the serious issues facing corporate management. Because each shareholder seeks to receive the appropriate part of the profit based on the share he contributed. On the other hand, managers who ensure that the commercial bank ends the reporting period with a profit also want to receive a certain part of the profit as a bonus. Shareholders also face the issue of reinvesting the profit achieved in order to further develop the activities of the commercial bank. Each of the above aspects must be taken into account when distributing profits. Otherwise, a conflict of interests between the parties may arise, which, as a result, may lead to corporate conflicts. In addition, when distributing profits among shareholders, it is necessary to take into account the possibilities of attracting additional resources in order to expand activities.

The procedure for calculating and paying dividends in most commercial banks in Uzbekistan is similar. In particular, if we study the practice of JSCB

"Uzsanoatqurilishbank", we can see that the procedure for calculating and paying dividends in this bank does not differ significantly from that of other banks.

According to the Law of the Republic of Uzbekistan No. 370 "On Joint-Stock Companies and Protection of Shareholders' Rights", joint-stock companies "have the right to make a decision on the payment of dividends on placed shares based on the results of the first quarter, half-year, nine months of the financial year and (or) the results of the financial year, unless otherwise provided for by this Law and the company's charter. A decision on the payment of dividends based on the results of the first quarter, half-year and nine months of the financial year may be made within three months after the end of the relevant period." The above-mentioned deadlines are, of course, of a recommendatory nature, and joint-stock companies, including commercial banks, may establish these deadlines in their charters.

According to the Regulation of JSCB "On Dividend Policy", "the decision on the payment of dividends for each type of shares, the amount of the dividend, the form and procedure for its payment is made by the general meeting of shareholders (GMS) on the basis of the recommendation of the bank's board and, if there is an audit opinion on the reliability of the financial statements, the financial reporting data. The decision on the payment of dividends for each type of shares (for each quarter, half-year, year-end), the amount of the dividend and the form of its payment are made by the general meeting of shareholders based on the recommendation of the bank's board. The decision on the payment of dividends based on the results of the first quarter, half-year and nine months of the financial year must be made within three months after the end of the relevant period"².

In the distribution of profits in JSB "Uzsanoatqurilishbank", the total amount of dividends is not allowed to exceed the amount recommended by the bank's board. In order for shareholders to have the right to receive dividends, they must be reflected in several documents formed by the bank. First, this shareholder must be included in the list of shareholders in which the decision on the payment of dividends was made. Also, this shareholder must be registered in the register of shareholders of the bank formed when organizing the joint-stock company. These documents confirm that the shareholders are actually shareholders and have the right to receive dividends.

It should be noted that the amount of dividends in this bank is determined based on the results of the bank's financial activities for the completed period, and part of the profit remaining after taxes, mandatory payments and reinvestment of activities is directed to dividend payments.

The GMS may decide not to pay dividends on certain types of bank shares, as well as pay dividends on preferred shares in an amount not fully equal to the amount of the dividend established in the bank's charter. According to the current legislation, "when paying dividends, dividends are paid first on preferred shares, then on ordinary shares. If there is a sufficient amount of profit to pay the fixed dividends on preferred shares, the company is not entitled to refuse to pay dividends to the owners of these shares. In the event of a refusal by the company, shareholders may demand the payment

² "Regulations of JSCB "Uzsanoatqurilishbank" "On Dividend Policy", approved on March 23, 2016; <https://sqb.uz/uz/general-information/innformation-disclosure/normative-documents-uz/>

of dividends in court. If the company does not have a sufficient amount of profit or is operating at a loss, dividends on preferred shares may be paid by the company at the expense of the reserve fund of the company established exclusively for this purpose and within the limits of this fund”³.

In accordance with the current legislation, in JSB “Uzsanoatqurilishbank”, when making dividend payments, we can see that, first of all, attention is paid to preferred shares, and then to ordinary shares. As is known, dividends on preferred shares are strictly determined, and if a commercial bank has sufficient profits to pay these dividends, the bank is not entitled to refuse to pay dividends to holders of preferred shares.

According to the procedure established in JSB “Uzsanoatqurilishbank”, the bank is not entitled to make a decision on the payment of dividends on shares and pay dividends in the following cases (Figure 2.1).

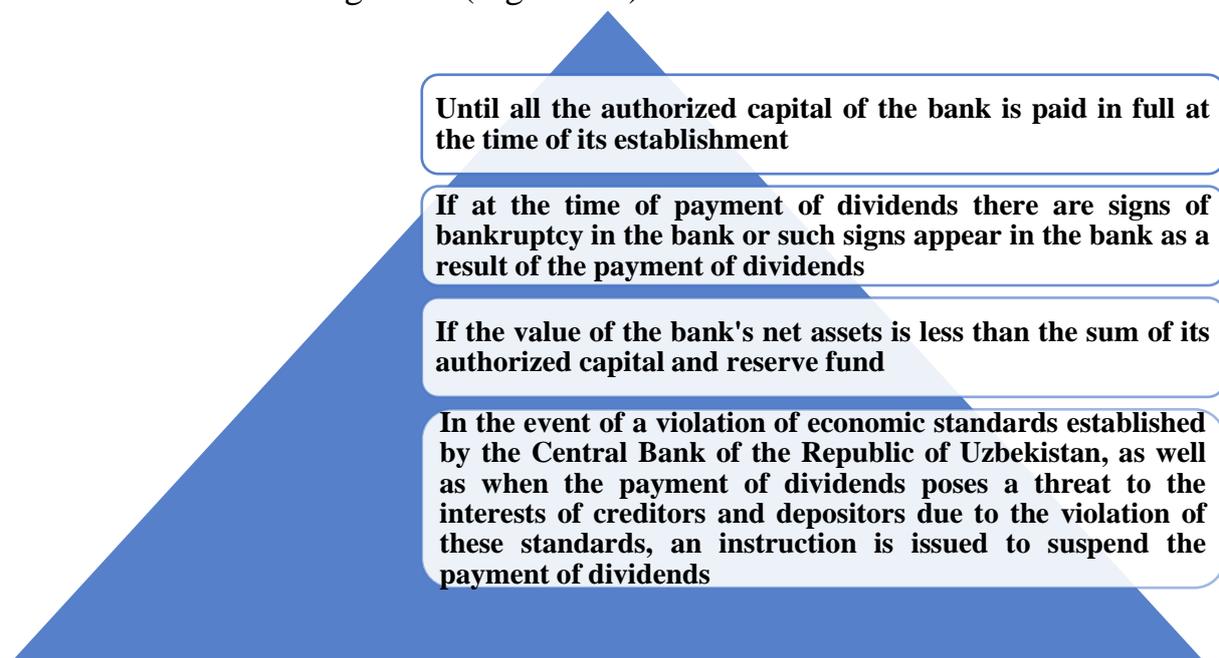


Figure 2.1. Circumstances in which it is impossible to pay dividends at Uzsanoatqurilishbank JSB⁴

When the above situations arise, only after eliminating them, the bank can pay the calculated dividends to shareholders.

In international practice, we can see that a number of indicators and ratios are used in calculating dividends. Commercial banks also use the dividend payout ratio when calculating dividends. The dividend payout ratio (DPR) is understood as the amount of dividends paid to shareholders relative to the total amount of net profit. In other words, the dividend payout ratio measures the percentage of net profit distributed to shareholders in the form of dividends.

DPR is calculated using the following formula:

$$\text{DPR} = \text{Total dividends} / \text{Net profit}$$

³ Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of Shareholders' Rights" No. 370, Article 49, 6.05.2014

⁴ "Regulations of JSCB "Uzsanoatqurilishbank" "On Dividend Policy", approved on March 23, 2016; <https://sqb.uz/uz/general-information/innformation-disclosure/normative-documents-uz/>

For example, *Commercial Bank A* reported a net profit of \$20,000 during the year. During the same period, commercial bank A announced the payment of dividends to its shareholders in the amount of \$5,000. In this situation, the DPR is calculated as follows:

$$\text{DPR} = \$5,000 / \$20,000 = 0.25 \text{ (25\%)}$$

Thus, the dividend payout ratio in this case indicates that *Commercial Bank A* pays out 25 percent of its net income to shareholders. It means that the remaining 75 percent of the net income is used to develop the commercial bank.

The dividend payout ratio helps investors determine which banks are most suitable for their investment objectives. When shareholders invest in a bank, the return on their investment comes from two sources: dividends and capital appreciation. These sources are related to:

A high dividend payout ratio means that the commercial bank reinvests less money in its operations, while paying out a relatively larger portion of its income in the form of dividends. Such commercial banks attract investors who prefer to guarantee a stable stream of income, and these banks are considered to have a high potential for share price growth.

A low dividend payout ratio means that commercial banks reinvest more money to expand their operations. By investing in the development of their operations, the bank can generate a high level of capital income for investors in the future. Therefore, these types of banks attract investors who seek to increase their capital from a significant increase in share prices and are less interested in dividends.

The dividend payout ratio is not intended to evaluate the good or bad of investments in commercial banks. On the contrary, this indicator is used to help investors determine how much profit they can get from commercial banks through dividends and reinvestment. Considering the dividend payout ratio of commercial banks helps investors determine how well they fit their investment portfolio, risk level, and investment objectives.

The dividend payout ratio can be used to determine the level of commercial banks. Newly established and rapidly growing banks may have low dividend payout ratios because they reinvest a large portion of their profits in business expansion and future growth. Banks with a slow growth rate may have relatively high dividend payout ratios because they do not spend a large portion of their profits on expansion in most cases.